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QUARTERLY ECONOMIC REPORT FOR SMALL BUSINESS

April 1989

Quarterly Economic Report for Small Business

April 1989

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NFIB QUARTERLY ECONOMIC REPORT
FOR SMALL BUSINESS
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SUMMARY OF RESULTS

by

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A healthy first quarter was not enought to stem the increasing pessimism small business owners expressed over the immediate future. While plans for the next three to six months remained strong by historical standards, confidence in factors beyond small business owner control, e.g., interest rates, dissipated. The result was sharp divisions between assessments of the past and the future, and between assessments of an individual's own prospects and those of the larger economy.

Small business conditions remained favorable throughout the first quarter. However, April's report contained clear signs of erosion from the previous three month period. Lower sales, sliding earnings, and rising interest rates, placed increasing pressure on the capacity of small business owners to realize their plans. Yet, capital expenditures continued at near record high levels. Inventory growth appeared healthy as well and left small business owners as a group with satisfactory inventory balances. One negative was weaker employment growth. But, tight labor markets in parts of the country seemed to explain as much of weaker employment growth as did decreased demand. As a result, the number of firms in April with at least one current job opening was little changed from January. Rising prices provided the quarter's worst news. The number of small business owners raising prices was the highest since the serious inflation of the 1970s and early 1980s was brought under control.

The Index of Small Business Optimism fell beneath the 100 mark (100=1978) for the first time in over two years. The outlook lead the decline. Citing financing conditions, comparatively few felt the climate good for small business expansion. Further, more thought general business conditions would get worse than get better. Credit conditions were expected to deteriorate again and sales were expected to fall (seasonally adjusted). April's strength came among factors over which the owner has control, plans to increase employment, capital expenditure and inventory expansion. While all except inventory weakened from January, they remained strong historically. Plans to raise prices were less frequent in April than January, but the decline was seasonal and the greater size of planned increases suggested some acceleration in the inflation rate.

Outlook

The small business outlook continued to decline in April. While recent quarterly outlook data have held out the possibility of a reversal in the outlook's general direction, April's figures put the small business outlook at its lowest ebb (seasonally adjusted) since the 1980 recession. Overall economic conditions and interest rates fed the rising pessimism.

Just 18 percent believed that general business conditions would improve over the next three to six months compared to 21 percent with the opposite view (Table 1). With the sole exception of October, 1988, the absolute difference between the percent holding positive and negative views was the largest since April, 1980. Seasonally adjusted, not even that one exception occurred.

Since 1985, over 50 percent of respondents have consistently believed that general business conditions would not change in the next three to six months. Their mostly accurate characterization of conditions is notable because the stability projected in such responses could be found in only three other quarters (April, July, and October, 1977) in the 16 year history of the survey. April's data again showed that a majority felt little or no change would occur (Table 1). Thus, the general business conditions data, usually measured as percent favorable minus percent unfavorable, probably provide a more negative perspective than is the actual case.

Table 1

EXPECTED GENERAL BUSINESS CONDITIONS OVER THE NEXT THREE TO SIX MONTHS COMPARED TO CURRENT QUARTER

EXPECTED CONDITIONS	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Much Better	3	2	1	1	2	2	1
Better	28	21	21	15	17	20	17
Same	51	55	58	54	53	58	54
Worse	10	12	12	18	15	11	19
Much Worse	1	2	1	3	1	2	2
Don't Know	6	6	7	8	11	7	7
No Answer	1	2	*	1	1	*	*
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

The absolute measure of the small business outlook - the climate for small business expansion - fell on a seasonally adjusted basis. Just 16 percent felt it a good time for small business expansion (Table 2), the lowest seasonally adjusted number since the 1981-82 recession.

Table 2

CLIMATE FOR SMALL BUSINESS EXPANSION IN NEXT QUARTER

GOOD TIME TO EXPAND	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Yes	29	20	21	19	16	17	16
No	41	43	41	43	47	44	48
Uncertain	29	35	37	37	37	38	35
No Answer	1	2	1	1	*	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

Economic conditions and financing and interest rates provided the primary reasons for those with negative and uncertain views of the climate for small business expansion (Chart 1). The significant development in April was the increase in those pointing to financing and interest rates. Since January the number with both negative and uncertain views increased their mention of financing and interest rates by nine percentage points. In the last year the numbers have risen by almost twenty percentage points among each view. In fact, just one year ago, more than twice the number with a positive view of the climate for small business expansion cited financing and interest rates as the reason for their favorable view as the number with either a negative or uncertain view who cited the reason for theirs. The nearly two percentage point increase in interest rates paid by small business owners has undoubtedly contributed to the outlook's swing.

The number with a negative view who noted expansion costs as the primary reason for their view actually fell between January and April, reenforcing the view that small business owners do not yet see rising prices, i.e., inflation, as a matter of major concern (see, Single Most Important Problem).

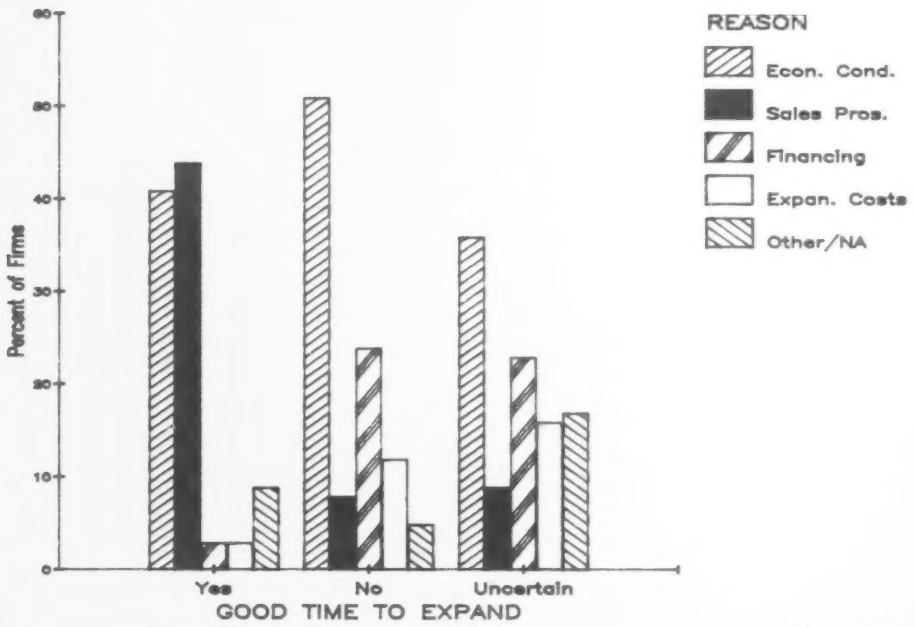
Credit Conditions

Interest rates paid on short-term loans by small business owners rose by 600 basis points between January and April (Table 3). The average rate paid was 12.6% in the first quarter compared to 10.8% just one year ago. Rates have moved relentlessly upward over the year and now appear high enough to dampen the boom in small business capital expenditures (see, Capital Expenditures). With the simultaneous decline in the Earning Index (see, Earnings) and with healthy, but unspectacular sales, small business owners cannot continue making large, new capital outlaysfor any prolonged period.

Rising rates were felt by small business borrowers. Almost 90 percent of them reported higher interest rates in the first quarter

Chart 1

"GOOD TIME TO EXPAND" by REASON
FOR VIEW OF EXPANSION



Source: NFIB

than in the fourth (Table 4). Almost 20 percent reported interest rates "Much Higher."

The number of frequent borrowers rose three percentage points over the last three months to 41 percent. The increase probably does not represent an increase in borrowing for capital investment. The frequency of small business borrowing is commonly tied to the inflation rate and April's reported increase corresponds with acceleration in the rate of price increases.

Higher rates appear to have also made loans more difficult to obtain. Eleven (11) percent indicated that loans were harder to get in the first quarter than in the fourth (Table 5). The last time 11 percent reported loans harder to obtain was in April, 1982.

While a majority of borrowers believed financing conditions would not change in the next three months, almost a third anticipated that they would continue to deteriorate (Table 6). April's data represented a 50 percent increase in the negative

Table 3

INTEREST RATE PAID ON SHORT-TERM LOANS

INTEREST RATE	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Under 10%	3	11	10	4	3	2	4
10%-12%	30	31	33	34	38	36	29
13%-15%	17	8	6	7	8	10	13
16% or More	2	3	2	2	2	3	3
Prime +1	25	25	25	29	27	28	25
Prime +2	19	17	21	20	18	18	21
Prime +3 or More	4	5	3	4	4	3	5
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE RATE	12.0%	10.6%	10.8%	11.2%	11.6%	12.0%	12.6%

*Less than 0.5%

Table 4

CURRENT INTEREST RATE COMPARED TO INTEREST RATE IN PRIOR QUARTER

RELATIVE INTEREST RATES	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Much Higher	*	*	1	*	1	2	7
Higher	1	5	6	17	22	25	29
Same	11	22	23	15	13	9	4
Lower	29	9	5	1	1	1	*
Much Lower	1	*	*	*	*	*	*
Don't Know	*	2	1	2	1	1	1
Inapplicable (borrow infre-frequently;no answer)	58	62	61	65	62	62	59
Total	100%	100%	100%	100%	100%	100%	100%

assessment. Prior to the current quarter, the number expressing a pessimistic view remained reasonably stable over the last few years despite fluctuations in interest rates. Thus, April's jump represented a departure from the past and demonstrated the concern small business owners are feeling about credit conditions.

Prices

The rate of price increases accelerated in the first quarter. While a portion of the acceleration can be attributed to

Table 5

AVAILABILITY OF LOANS
COMPARED TO PRIOR THREE MONTHS

LOAN AVAILABILITY	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Easier	4	2	2	1	1	1	1
Same	28	27	25	25	28	27	27
Harder	9	7	7	7	7	8	11
Don't Know	1	2	2	2	2	2	2
Inapplicable (Don't Borrow; No Answer)	58	62	61	65	62	62	59
Total	100%	100%	100%	100%	100%	100%	100%

Table 6

EXPECTED FINANCING CONDITIONS NEXT QUARTER
COMPARED TO THE CURRENT QUARTER

CREDIT EXPECTATIONS	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Easier	5	2	2	2	2	1	1
Same	26	25	22	22	24	24	23
Harder	9	8	8	8	9	9	13
Don't Know	2	3	2	3	3	4	4
Inapplicable (Don't Borrow; No Answer)	58	62	61	65	62	62	59
Total	100%	100%	100%	100%	100%	100%	100%

seasonality, most of the new inflationary burst bore no seasonal relationship. Thirty-six (36) percent, the most since July, 1981, reported higher average selling prices in the first quarter than in the fourth (Table 7). April's figure represented a seven percentage point increase from January. Thus, the racheting motion which has characterized the annual rise in the frequency of selling price increases over the last two years has appeared for the third consecutive year.

The size of reported price increases also crept higher in the first quarter. Price increases averaged about five percent in the first quarter compared to about 4.6 in the fourth. Thus, price hikes appeared not only to be broadening, but also to be increasing in size.

The most frequent increases were reported among wholesalers (52%) and retailers (43%). The professional services also produced

Table 7

CURRENT AVERAGE SELLING PRICES COMPARED TO PREVIOUS QUARTER'S AVERAGE SELLING PRICES

AVERAGE SELLING PRICES	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Lower Now	17	12	10	9	8	8	9
No Difference	59	57	57	58	59	58	52
Higher Now	22	24	30	29	29	29	36
Less than 1%	*	1	*	1	*	1	*
1.0-1.9%	2	3	4	3	4	4	4
2.0-2.9%	4	5	5	5	4	5	5
3.0-3.9%	3	3	4	3	5	4	5
4.0-4.9%	3	2	3	4	4	4	5
5.0-7.9%	5	5	8	6	6	6	9
8.0-9.9%	1	1	2	1	1	1	2
10% or More	3	3	3	5	4	3	4
No Answer	1	1	1	1	1	1	2
No Answer	2	7	3	4	4	5	3
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

relatively frequent increases (40%). However, fewer than one-third in the production industries and most of the services raised selling prices in the first quarter. These data suggest that the comparatively large price rises in imported products (due on a lagged basis to the dollar's decline) have found their way into the small business distribution network. With the dollar stronger again and compensation increases still reasonable (see, Compensation), there is reason to believe that the frequency of small business price increases may stabilize for awhile.

Plans to raise prices fell. Twenty-eight (28) planned to raise average selling prices in the second quarter, two percentage points fewer than reported them three months ago (Table 8). However, price plans have fallen short of eventual price increases over the last two years (Chart 2). It is, therefore, probable that the frequency of price increase will decline in the next three months compared to first quarter levels, but only by two or three percentage points.

Compensation

Compensation increases were not a major factor in the acceleration of small business prices. While small business compensation has risen modestly in the last two to three years, it has not paralleled the general rise in selling prices. Nor, is there any indication that compensation increases will force up selling prices in the immediate future. Plans to raise compensation were relatively

Table 8

PLANNED PRICE CHANGES FOR NEXT QUARTER

PLANNED PRICE CHANGES	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Lower	5	3	3	2	3	2	3
No Change	60	54	54	53	56	49	51
Increase	19	19	24	26	25	30	28
Less than 1%	*	1	*	*	*	*	*
1.0-1.9%	2	2	2	2	3	3	3
2.0-2.9%	3	3	3	3	4	4	5
3.0-3.9%	2	3	4	4	4	4	4
4.0-4.9%	2	5	3	4	3	4	4
5.0-7.9%	5	1	7	7	7	9	7
8.0-9.9%	1	2	1	2	1	1	1
10% or More	3	1	3	3	3	3	3
Don't Know	1	1	1	2	*	3	1
Don't Know	14	15	13	14	12	13	14
No Answer	2	9	6	5	4	6	4
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

few. Even in regions with tight labor markets, small business owners appeared only a little more inclined to raise compensation than those in labor surplus markets.

Twenty-six (26) percent reported average compensation during the first quarter (Table 9). April's figure represented a small, seasonally inspired increase from the prior quarter. The total increase was estimated at 1.5 percent per firm, a 0.1 percent rise from January's number.

The proportion of small business owners raising overall average compensation will not change appreciably in the second quarter. Twenty-two (22) percent held plans to raise compensation in the next three months (Table 10). The current level of plans is characteristic of those reported throughout 1988, but a few percentage points higher than characteristic of the few years prior.

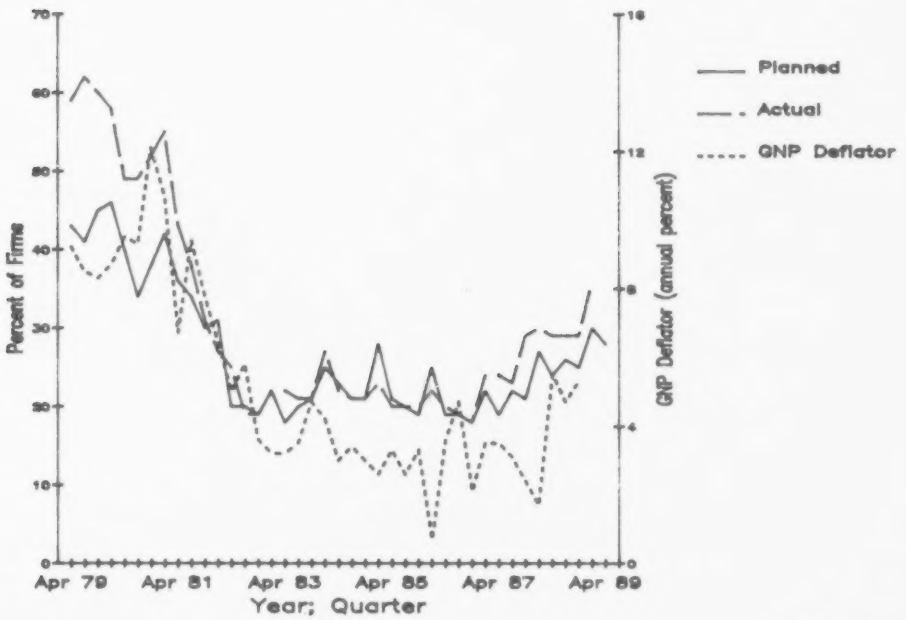
Sales

Small business sales fell for the second consecutive quarter. However, they remained somewhat better than their historic average. Twenty-nine (29) percent reported higher sales in the first quarter than in the fourth quarter of 1988 compared to 30 percent who reported them lower (Table 11). Both numbers were comparable to those recorded in each of the last three Aprils. The seasonally-adjusted Index of Small Business Sales fell from January's level (Chart 3).

Fifty-six (56) percent anticipated real sales to be higher in the second quarter than in the first compared to 17 percent who anticipated them lower (Table 12). However, on a seasonally adjusted basis, sales expectations for the coming three months weakened. The change was not large, but its continued downward direction suggested that small business sales would not support a greater level of activity in the coming months.

Chart 2

THE FREQUENCY OF PLANNED AND ACTUAL PRICE INCREASES



Sources: NFIB

Earnings

Small business earnings fell in the first quarter. Just 19 percent reported earnings higher in the first quarter than in the fourth and 37 percent reported them lower (Table 13). The seasonally-adjusted Index of Small Business Earnings recorded its lowest level since January, 1987 (Chart 3).

Lower volume and increased factor costs continued to be the two primary reasons for earnings declines (Table 14). But as the

Table 9

CHANGE IN AVERAGE COMPENSATION
OVER THE PAST THREE MONTHS

COMPENSATION CHANGE	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Increased	24	24	24	25	26	24	26
1-2%	4	2	3	3	3	3	3
3-4%	6	7	8	7	8	7	7
5-6%	7	7	7	8	7	7	7
7-8%	3	2	2	3	3	3	3
9-10%	2	3	2	2	2	2	3
Over 10%	1	2	1	2	2	5	2
No Answer	1	*	1	*	1	*	1
Same	68	69	69	69	67	69	68
Decreased	2	2	1	1	1	1	1
No Answer	6	6	6	5	6	6	5
Total	100%	100%	100%	100%	100%	100%	100%
AVERAGE INCREASE							
Firms Increasing	5.6%	5.9%	5.6%	5.9%	5.8%	5.9%	5.9%
All Firms	1.4%	1.4%	1.4%	1.5%	1.5%	1.4%	1.5%

* Less that 0.5%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS

COMPENSATION CHANGE	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Increase	19	18	20	18	21	24	22
1-2%	2	2	2	1	2	2	2
3-4%	6	6	6	6	7	7	6
5-6%	6	6	6	6	7	9	7
7-8%	1	1	2	1	1	2	2
9-10%	1	1	2	2	2	2	2
Over 10%	1	1	1	1	1	1	1
Don't Know	1	*	1	1	1	1	1
No Answer	1	1	*	*	*	*	1
Same	66	67	67	67	66	63	66
Decrease	2	1	1	1	1	1	*
Don't Know	10	10	10	11	10	9	10
No Answer	3	4	2	3	2	3	2
Total	100%	100%	100%	100%	100%	100%	100%

Table 10

PLANS TO CHANGE AVERAGE COMPENSATION
OVER NEXT THREE MONTHS
(continued)

AVERAGE INCREASE	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Firms Increasing	5.4%	5.5%	5.5%	5.8%	5.4%	5.9%	5.8%
All Firms	1.0%	1.0%	1.3%	1.0%	1.1%	1.4%	1.3%

*Less than 0.5%

Table 11

DOLLAR SALES VOLUME COMPARED TO PRIOR
QUARTER'S DOLLAR SALES VOLUME

DOLLAR SALES VOLUME	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Much Higher	3	3	3	4	3	4	3
Higher	26	27	27	36	32	29	26
About the Same	38	37	41	38	45	40	40
Lower	26	23	24	18	17	22	25
Much Lower	6	6	4	3	2	3	5
No Answer	1	4	1	1	1	2	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 12

REAL SALES EXPECTATIONS FOR NEXT QUARTER

EXPECTED REAL SALES	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Go Up A Lot	13	13	13	8	9	8	11
Go Up A Little	45	45	47	39	34	36	45
Stay the Same	23	24	23	30	26	29	22
Go Down a Little	11	11	11	15	20	18	14
Go Down a Lot	3	2	2	3	6	4	3
Don't Know	4	3	3	4	3	3	3
No Answer	1	2	1	1	2	2	2
Total	100%	100%	100%	100%	100%	100%	100%

*Less than 0.5%

Table 13

NET EARNINGS COMPARED TO PRIOR QUARTER'S NET EARNINGS

NET EARNINGS	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Much Higher	2	2	1	2	2	2	1
Higher	18	18	19	25	22	21	18
Same	41	41	43	41	46	43	41
Lower	30	27	29	25	25	27	32
Much Lower	7	7	5	4	4	4	5
No Answer	2	5	3	3	2	3	3
Total	100%	100%	100%	100%	100%	100%	100%

Chart 3

INDICES OF SMALL BUSINESS SALES AND EARNINGS

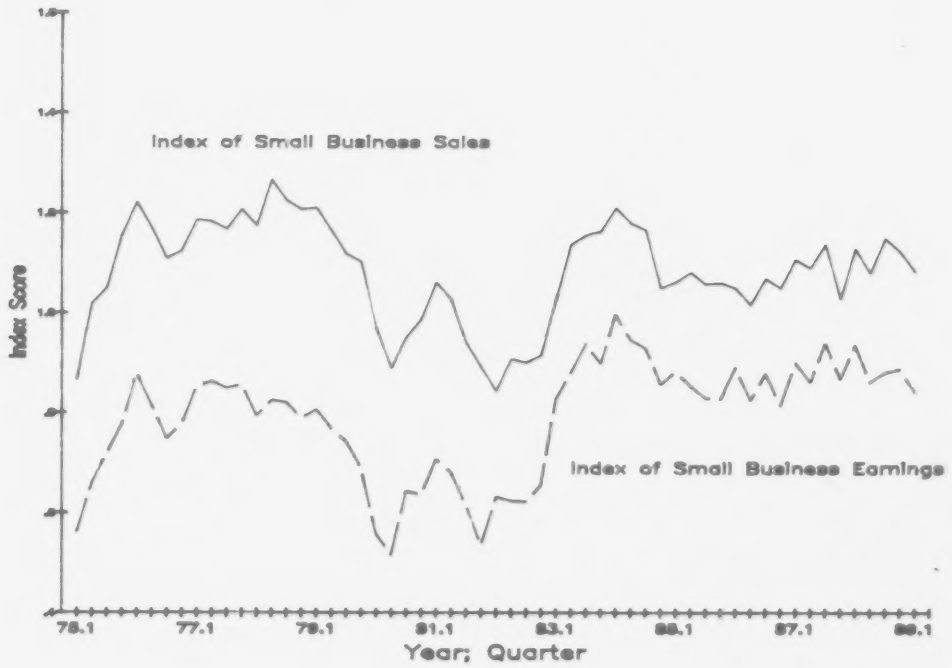


Table 14

PRIMARY REASON FOR EARNINGS CHANGE

REASON FOR HIGH NET EARNINGS	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Sales Volume	59	60	60	59	58	60	59
Higher Prices	10	10	10	7	11	9	11
Factor Costs*	6	8	5	1	6	6	7
Seasonality	15	14	16	22	19	18	12
Other; NA	10	8	9	11	6	8	11
Total	100%	100%	100%	100%	100%	100%	100%

REASON FOR LOWER NET EARNINGS	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Sales Volume	47	43	38	41	39	40	39
Factor Costs*	14	16	23	26	28	21	25
Seasonality	19	26	23	13	17	24	20
Other; NA	20	15	16	20	15	15	16
Total	100%	100%	100%	100%	100%	100%	100%

* Includes labor, material, and financing costs.

proportion citing factor costs increases, the proportion citing volume declines. Three years ago 47 percent of those with lower earnings attributed them to volume; this April, the figure was 39 percent. In contrast, three years ago 14 percent attributed earnings declines to increased factor costs; this April, the figure was 25 percent. Rising materials costs was the most frequently mentioned factor cost. It was offered as the primary reason for lower earnings about twice as frequently as was either rising labor costs or rising financing costs.

The continued earnings decline experienced in the first quarter is significant. Survey record levels of capital expenditures, inventory build-ups, and new employment have been largely financed by earnings during this expansion. Plans to make additional capital expenditures, increase employment and expand inventories, though waning from record or near-record levels, remained strong in April. Declining earnings make internal financing of these activities less practical. Higher interest rates makes debt a less viable substitute. Thus, the ability of small business to continue expansionary activity - at least at its current level - is threatened.

Employment

The tempo of job creation in operating small firms slowed in the first quarter. However, the number of job vacancies in April

remained at a very high level historically and second quarter employment plans suggested another large increase in the number of people working. Varying regional employment conditions complicated the employment outlook. Job openings and plans were highest in regions where labor markets are tight and vice-versa. As a result, small business employment plans may not be realized.

Fourteen (14) percent reported increasing net employment in the last three months compared to 13 percent who reported net declines (Table 15). Most increases and decreases involved non-seasonal positions. The greater size in the number of employees per firm losing employees negated the positive percentage increasing employment. The result was a net decline (seasonally unadjusted) for the quarter. However, the decline was small (-0.3) and did not account for job creation affect of businesses moving in and out of the market.

Table 15

AVERAGE EMPLOYMENT CHANGE IN PAST QUARTER

EMPLOYMENT CHANGE	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Increased	16	13	15	20	16	14	14
Seasonal	5	5	6	10	5	5	5
Non-seasonal	11	8	9	10	11	9	9
Decreased	15	13	13	10	13	13	13
Seasonal	5	6	4	2	5	6	4
Non-seasonal	10	7	9	8	8	7	9
No Change	69	65	69	68	69	70	72
No Answer	*	9	3	2	2	3	1
Total	100%	100%	100%	100%	100%	100%	100%
NUMBER OF EMPLOYEES							
Employees increased per firm increasing	3.6	3.8	3.9	3.9	3.6	3.9	3/6
Employees decreased per firm decreasing	4.3	4.2	4.0	3.3	3.7	3.7	4.2
Average net change per all firms	-.07	-.06	+.06	+.44	+.10	+.05	-4.3

*Less than 0.5%

Twenty-three (23) percent reported one or more current job opening. April's figure represented a one percentage point decline from January, but the level over the last six quarters has been comparatively stable. With current job openings inversely related

to unemployment, the data indicated some upward pressure on the unemployment rate. However, unemployment will probably change little in the next three months.

Table 16

CURRENT JOB OPENINGS

CURRENT JOB OPENINGS	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Yes	16	19	23	21	25	24	23
Skilled Labor	11	12	14	15	16	15	15
Unskilled Labor	2	3	4	3	4	5	4
Both	3	4	4	3	5	4	4
No	83	80	77	78	74	75	76
No Answer	1	1	1	1	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

Current job openings varied considerably by region (Chart 4). Over 35 percent of respondents located in New England reported one or more job openings. In contrast, less than 15 percent in the West South Central region reported one. The result was a spotty labor demand with owners in some regions fighting for employees and owners in others having a selection. However, the data did not suggest higher compensation growth in regions where shortages are particularly severe (see, Compensation).

Plans to increase the labor force fell in April on a seasonally-adjusted basis. Yet, the tumble was from one of the highest points in the survey's history. These data suggested that while job growth may slow, it will continue at healthy levels. Twenty-three (23) percent expected to increase the size of their labor force in the next three months; five percent expected to decrease it (Table 17).

The curious industry was construction. Its second quarter plans are normally much more positive than are those of other industries for obvious seasonal reasons. But with interest rates rising and the effects of the real estate portions of the 1986 Tax Reform Act increasingly evident, most would expect construction to take on fewer employees than normal. Instead, 41 percent of contractors planned to increase their net labor forces, the industry's highest since 1978. The reason for the large jump was not clear.

Inventory

Small business inventories appeared under control in April. Inventory replacement modestly lagged the historic pattern in the first quarter. Current balances were generally satisfactory. And, while greater than usual build-ups were anticipated in the next three months, they were not sufficiently large to raise questions.

Chart 4

CURRENT JOB OPENINGS BY REGION

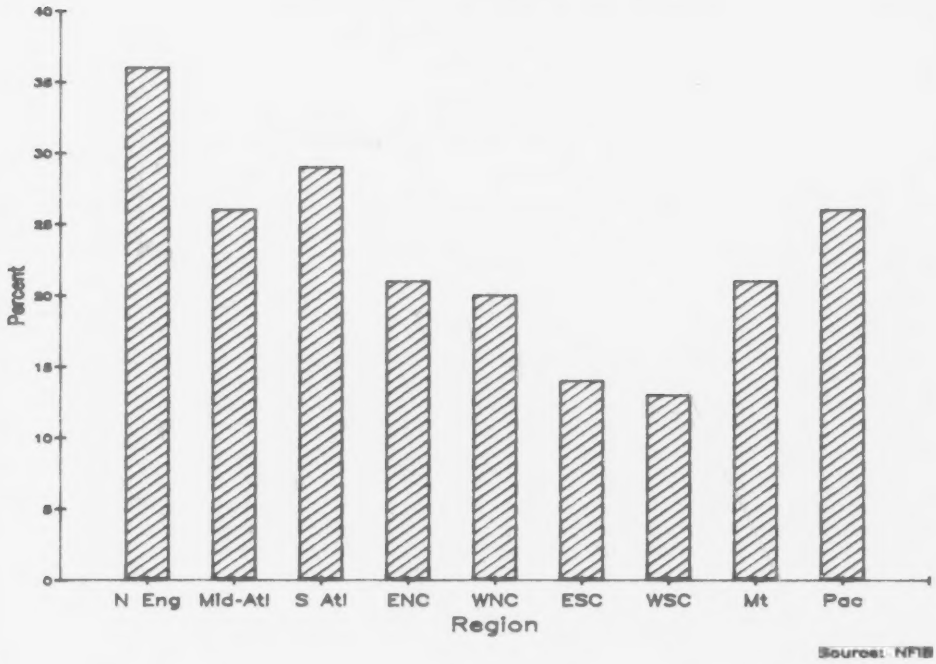


Table 17

EXPECTED NET LABOR FORCE CHANGES
IN NEXT QUARTER

NET LABOR FORCE CHANGE EXPECTATION	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Increase	23	22	25	16	18	20	23
Keep the Same	69	71	68	73	69	69	69
Decrease	7	5	5	9	11	7	5
No Answer	1	2	2	2	2	4	3
Total	100%	100%	100%	100%	100%	100%	100%

Twenty (20) percent built net inventories during the first quarter; 17 percent decreased them (Table 18). Though slower than the first quarter one year ago, April's net increase (percent increasing minus percent decreasing) was in line with the same

quarter in 1986 and 1987. Net accumulations left most owners satisfied with current balances. Eleven (11) percent reported their inventories too large and ten percent reported them too small (Table 19). Since sales expectations in April were lower on a seasonally-adjusted basis (see, Sales), satisfaction with current inventory levels suggested modest need for additional inventories in the next three months.

Table 18

INVENTORY CHANGE IN PRIOR QUARTER

INVENTORY CHANGE	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Increase	20	21	21	21	20	17	20
Same	41	43	44	45	46	42	43
Decrease	18	17	15	13	14	19	17
Not Applicable	19	17	18	19	18	19	19
No Answer	2	2	2	2	2	3	1
Total	100%	100%	100%	100%	100%	100%	100%

Table 19

CURRENT INVENTORY SATISFACTION

INVENTORY LEVEL	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Too Large	13	11	12	12	10	12	11
About Right	55	58	56	54	58	55	56
Too Low	10	10	10	10	10	10	10
Not Applicable	19	19	21	20	20	21	21
No Answer	3	2	1	2	2	2	2
Total	100%	100%	100%	100%	100%	100%	100%

Inventory plans appeared somewhat more optimistic than the difference between current inventory satisfaction and expected sales seemed to warrant. Twenty-one (21) percent planned net additions to inventory over the next three months and 12 percent planned net reductions (Table 19). These represented the strongest April inventory plans since 1984. However, they were not a sharp departure from the levels experienced in the last few years.

Capital Expenditures

Small business has made significant capital outlays in the last six to nine months. However, it appears that higher interest rates

(see, Credit Conditions) and lower earnings (see, Earnings) have conspired to reduce future outlays.

Fifty-seven (57) percent reported making one or more capital expenditures in the last three to six months (Table 21). Aside from January, it was the largest percent making capital expenditures since 1985. The composition of expenditures shifted again. In April, they more closely reflected their historic distribution than in either January or October. The number reporting an outlay for equipment/vehicles (46%) settled back while the number reporting an outlay for improved buildings (16%) rose.

Table 20

NET INVENTORY CHANGE PLANNED IN NEXT QUARTER

PLANNED INVENTORY CHANGE	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Add	19	20	20	16	17	22	21
No Change	45	47	44	45	44	43	44
Decrease	14	13	14	15	17	12	12
Not Applicable	19	18	19	21	20	20	20
No Answer	3	3	3	3	2	3	3
Total	100%	100%	100%	100%	100%	100%	100%

Table 21

PERCENT MAKING CAPITAL EXPENDITURES
IN LAST SIX MONTHS

TYPE OF EXPENDITURE	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
All Types+	56%	53%	55%	56%	55%	57%	57%
Equipment/ Vehicles	45	41	45	44	44	49	46
Add Buildings	7	7	6	7	7	7	8
Improved Buildings	15	14	16	16	18	14	16
Land	4	4	3	3	4	4	4

+Percent of firms making one or more capital expenditures

The size of the average expenditure rose. Twenty-four (24) percent involved $50,000 or more (Table 22). Usually fewer than 20 percent make expenditures of that size.

Table 22

CAPITAL EXPENDITURES MADE IN LAST SIX MONTHS
BY SIZE OF TOTAL EXPENDITURES

AMOUNT OF EXPENDITURES (000's)	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Under $1	5	8	5	8	7	6	6
$1 - 4	22	24	19	20	20	22	19
$5 - 9	13	14	15	14	13	13	16
$10 - 19	21	19	22	22	21	22	17
$20 - 49	18	15	19	17	17	18	18
$50 - 99	8	10	9	9	11	9	10
$100 - 499	10	9	8	8	8	8	11
$500 - 999	1	2	1	2	2	1	2
$1,000 or More	1	1	1	*	1	1	1
Total	100%	100%	100%	100%	100%	100%	100%

* Less than 0.5%

After two quarters of survey record highs (seasonally-adjusted), plans to make capital expenditures in the next three to six months fell abruptly in April. Still, the 33 percent reporting capital expenditure plans was healthy by historical standards and capital expenditures should continue at a brisk pace (Table 23). The primary reasons for reduced plans rested with interest rates and earnings. However, weakening sales expectations and rising costs may have also played a role.

Single Most Important Problem

"Taxes" once again was most frequently cited as the single most important problem of small business (Table 24). Twenty-two (22) percent noted "Taxes," the same number as in January. Not since October, 1984, has any other problem been cited with greater frequency than has "Taxes."

Government Regulation(s)/Red Tape was cited with second greatest frequency (16 percent). The problems position has not changed in over a year.

"Interest Rates & Financing" received the third most frequent response. Reflecting higher interest rates and the increased cost of financing business activity, the proportion mentioning "Interest Rates & Financing" as the single most important problem has more than doubled since July. Still, the 11 percent singling out the interest rate problem in April was a far cry from the 26 percent noting it as recently as July, 1984.

Table 23

EXPECTED CAPITAL EXPENDITURES
IN NEXT THREE TO SIX MONTHS

CAPITAL EXPENDITURES EXPECTATIONS	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
Yes	33	32	33	29	34	36	33
No	52	52	51	57	50	48	52
Don't Know	12	12	12	11	11	13	11
No Answer	3	4	4	3	5	3	4
Total	100%	100%	100%	100%	100%	100%	100%

Table 24

SINGLE MOST IMPORTANT PROBLEM

MOST IMPORTANT PROBLEMS	Prior High Date	%	Prior Low Date	%	1988 JUL Rank	JUL %	1988 OCT Rank	OCT %	1989 JAN Rank	JAN %	1989 APR Rank	APR %
Taxes	4/88+	25	10/74	8	1	25	1	23	1	22	1	22
Inflation	10/74	41	10/87+	2	8	5	8	2	8	3	8	4
Poor Sales	10/82	23	1/75+	1	3	11	4	11	4	10	4	10
Interest Rates & Financing	4/82+	37	7/77	4	7	5	6	7	6	9	3	11
Cost of Labor	7/77	9	7/82	2	6	6	7	6	7	5	7	7
Government Regulation(s)/ Red Tape	1/88	18	7/82+	4	2	17	2	14	2	16	2	16
Competition from Large Business	10/76	13	4/80+	4	3	11	4	11	3	12	5	9
Quality of Labor	10/88+	12	1/83+	3	5	10	3	12	4	10	5	9
Shortage of Fuel Material, Goods	1/74	23	1/89+	*	9	*	9	*	9	*	9	*
Other; No Answer	-	-	-	-	-	12	-	14	-	13	-	12
Total					-	100	-	100	-	100	-	100

* Less than 0.5%
\+ Most recent

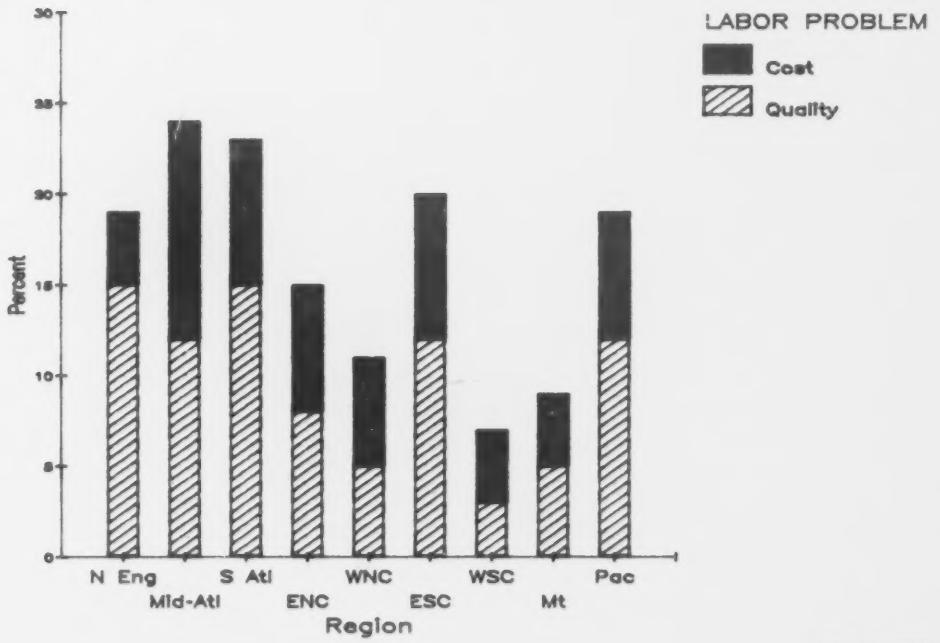
Despite the evidence of accelerated inflation reported earlier (see, Prices), small business owners did not yet appear worried about it. Just three percent cited "Inflation" as their single most important problem, a figure that has not changed appreciably since the serious inflation of the 1970s and early 1980s was brought under

control. The lack of relationship between the accelerating frequency of price increases and the stability of "Inflation" as the single most important problem suggests that inflation is not yet pinching small business owners. This is not unexpected. Inflation appears to affect small businesses most adversely when the levels are high and when they begin to decline.

Labor-related problems, i.e., "Cost of Labor" and "Quality of Labor," were concentrated in certain parts of the country (Chart 5). Small business owners in the Mid-Atlantic, South Atlantic and East South Central states were most likely to cite a labor problem as their single most important. Those in the West South Central and the Mountain states were least likely. Conditions in the New England states more closely approximated the former than the latter. Nonetheless, the comparative decline in the importance of labor problems among New England small businessmen and women represented a significant change from the past few years.

Chart 5

LABOR RELATED PROBLEMS BY REGION



Source: NFIB

Index of Small Business Optimism

The Index of Small Business Optimism tumbled in April and ended matching a post-recession low (Chart 6). The Index slumped from January's 102.8 to less than 100 (100=1978) for the first time in 10 quarters. April's level was 99.5 (Table 25). As a result, small business forecast a 2.2 percent (annualized rate) real growth in the GNP for the second quarter, down from the 4.4 percent forecast for the first.

Most of the Index's decline was attributable to the "General Expectations" component. Small business owners were wondering how much longer the current expansion will last. (See, Outlook.) Yet, the twin effects of lower earnings and higher interest rates appeared to have little effect on "Spending Plans."

July's Index should help provide a clear picture of the economy's direction. While the drop in the Index between January and April is large, similar drops have occurred without a recession ensuing. A second sharp decline could point to the first recession in over six years. However, small business activity appeared too strong to worry about recession yet and July's report should confirm that.

Table 25

INDEX OF SMALL BUSINESS OPTIMISM
BY MAJOR COMPONENTS

INDEX COMPONENTS	1986 APR	1987 APR	1988 APR	1988 JUL	1988 OCT	1989 JAN	1989 APR
General Expectations[1]	112.3	117.0	117.5	109.3	107.3	110.5	110.3
Current Status[2]	98.7	101.0	101.7	105.7	106.3	104.3	101.3
Spending Plans[3]	117.7	119.0	119.7	113.0	113.7	119.7	120.0
Index*	113.8	112.8	113.4	109.3	103.7	111.4	110.5
Index (1978=100)+	102.6	101.7	102.3	100.5	102.9	102.8	99.5

*Index numbers +Seasonally Adjusted
[1]Expected Business Conditions, climate for Expansion, Expected Real Sales Volume, Expected Conditions
[2]Current Job Openings, Current Inventory Satisfaction, Change in Net Earnings
[3]Plans to Hire, Make Capital Expenditures, Add to Inventories

Regional Conditions

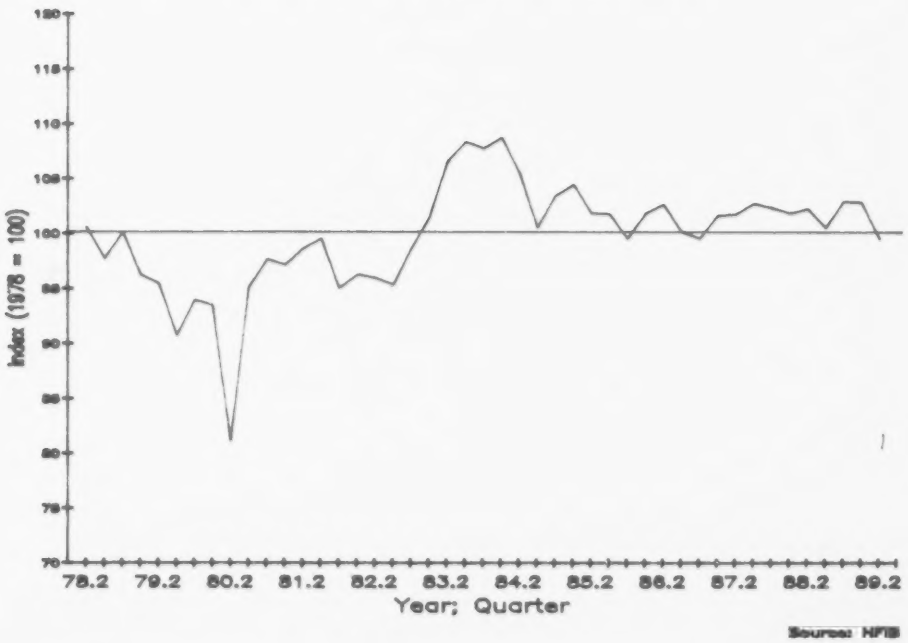
All but two regions produced lower Index levels in April than in January (Table 26). The West South Central region alone bucked the trend. Its Index rose a modest one percent. The second "non-

loser," the Mountain region, produced an Index virtually unchanged from prior three months. Thus, even in regions where the Index rose, the gain was small.

In the seven regions where the Index fell, the declines tended to be larger. The most sizeable loss occurred in New England where the Index dropped by six percent. The loss sent its Index compared to its 1977-78 level below 100 for the first time since 1982 (see, Chart - New England). The small number of respondents from the region (n=78) offers a comparatively large margin for error which could affect the quarter's outcome. Nevertheless, April's data is reasonably consistent with data from prior quarters and suggests that the relative position of small business in New England is transforming adversely.

Chart 6

INDEX OF SMALL BUSINESS OPTIMISM



Small business optimism experienced its second greatest tumble in the Mid-Atlantic region. The region's Index fell five percent, slightly more than it fell in the erratic East South Central region (n=76). The East South Central provided the lowest Index in April of all nine regions.

Throughout most of the 1980s small business owners along the East coast have provided the nation's highest Index readings. With New England and the Mid-Atlantic regions witnessing deterioration in

their relative positions, the South Atlantic region remains the East's most vibrant area. Though the region's Index fell three percent between January and April, it remained among the leaders.

While the Index of the Great Lakes (East North Central) region also declined over the last three months, small business conditions in the area have undoubtedly improved over the decade. In fact, the region's April Index was the nation's best when compared to the region's 1977-1978 performance (see, Chart - The Great Lakes). Its absolute level in April was third highest in the country.

Table 26

REGIONAL INDICES OF SMALL BUSINESS OPTIMISM
(Seasonally Adjusted)

Regions*	1986	1987	1988	1988		1989	
	APR	APR	APR	JUL	OCT	JAN	APR
New England	118.6	118.5	117.1	111.5	114.2	111.9	105.4
Mid-Atlantic	113.3	113.9	113.6	112.4	111.1	111.7	105.9
South Atlantic	118.0	111.0	112.8	111.8	116.4	110.7	107.3
East North Cent.	110.5	109.4	109.8	109.7	113.7	111.0	108.3
West North Cent.	106.0	103.7	105.9	103.2	109.4	105.7	103.3
East South Cent.	109.2	108.9	114.0	109.5	112.5	108.0	103.1
West South Cent.	99.6	105.2	106.8	107.2	107.4	104.9	106.1
Mountain	108.0	107.4	105.0	107.0	112.6	108.4	108.5
Pacific	113.1	110.5	111.2	112.1	115.8	113.6	109.4

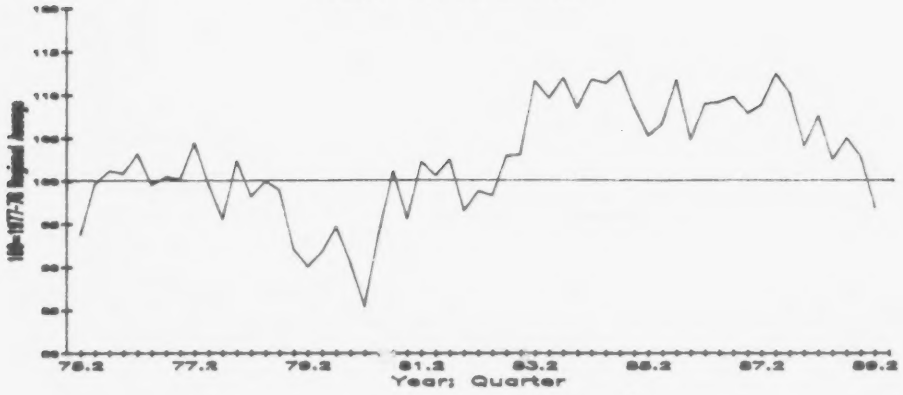
*States in each region are listed in Appendix A-2

Too much can be inferred from the relative changes experienced by New England, the Mid-Atlantic and the Great Lakes regions. Because no change from a relatively high level is equivalent in Index calculation to no change from a relatively low level, the Index tends to enhance the position of lower ranked regions and vice versa. Yet, little doubt exists that a major transformation in the relative health of small businesses in the regions is underway and that these three regions are among the region's most affected.

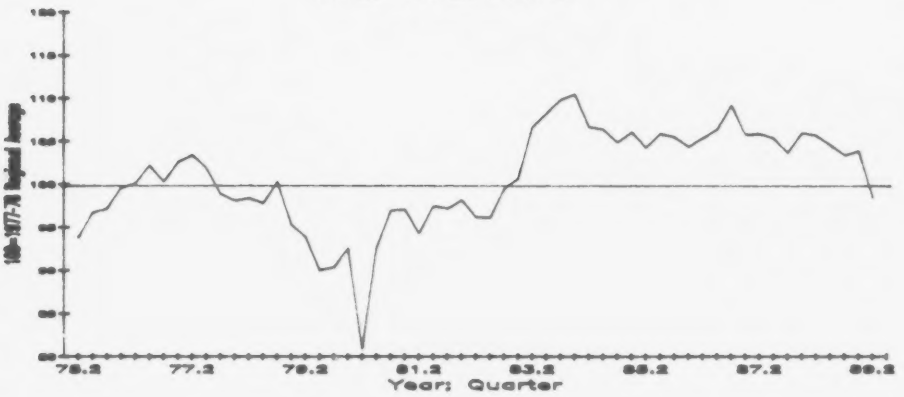
The Pacific region produced the highest Index score for the second consecutive quarter. As can be seen from Chart - Pacific, small businesses in the region appear to have been subject to less cyclicality than those in other parts of the country.

Small business owners in the Great Plains (West North Central) are usually among the least optimistic. Table 26 shows the region's Index to be either the lowest or the second lowest over the period presented. April was no different. While the East South Central Region produced a lower Index score, the Great Plains produced the second lowest. The transformations in relative health that have affected other regions appear to have had no affect in this part of the country.

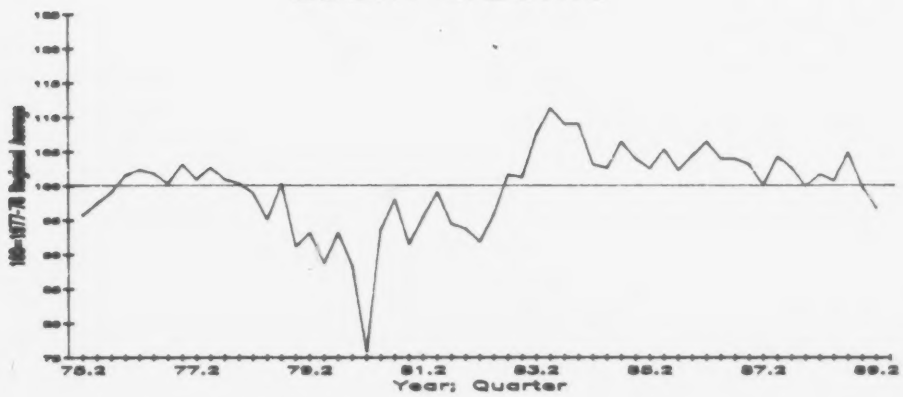
NEW ENGLAND



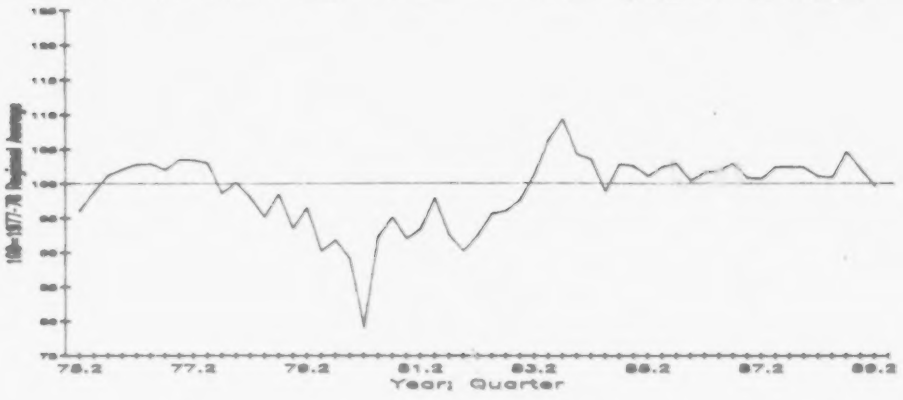
MID-ATLANTIC



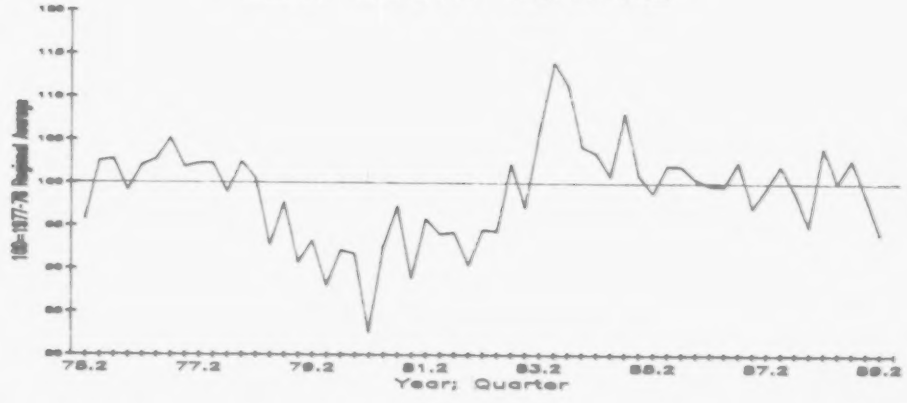
SOUTH ATLANTIC



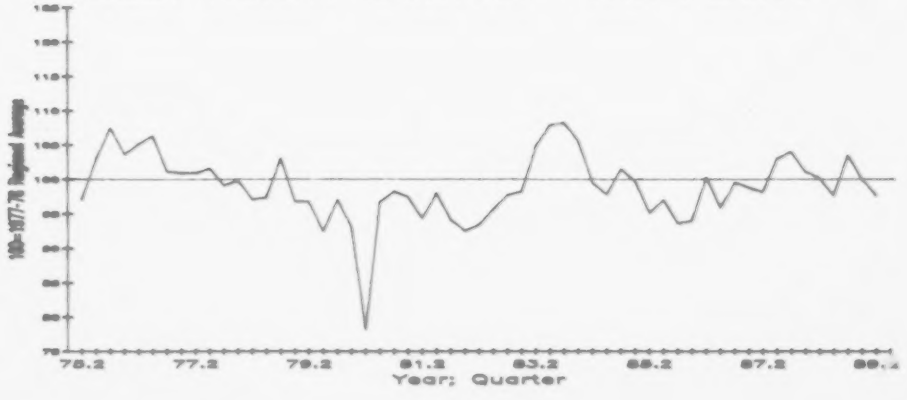
EAST NORTH CENTRAL - THE GREAT LAKES



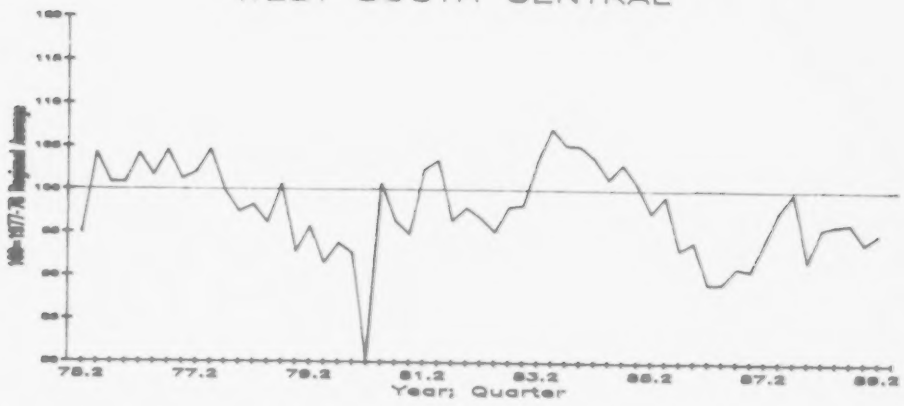
EAST SOUTH CENTRAL



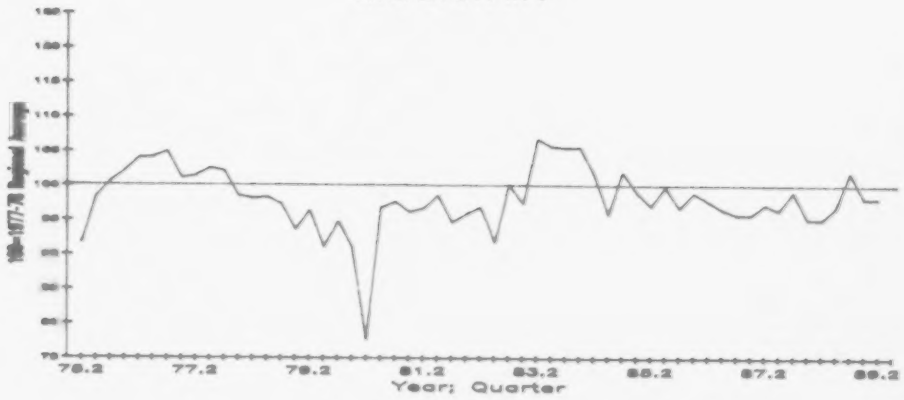
WEST NORTH CENTRAL - THE PLAINS



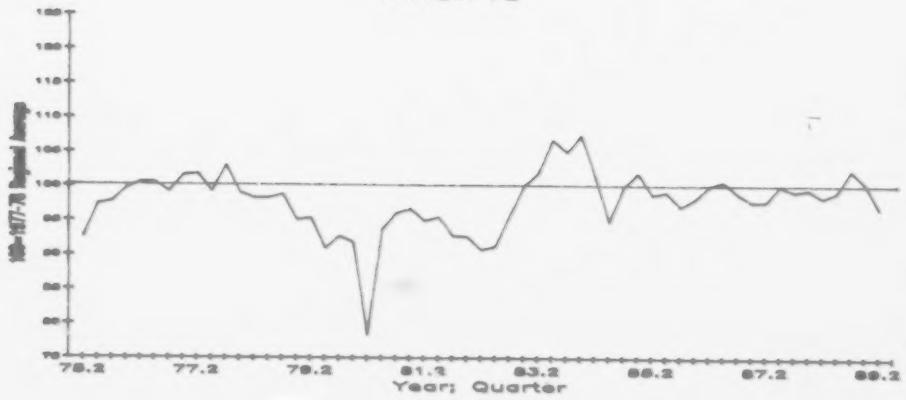
WEST SOUTH CENTRAL



MOUNTAIN



PACIFIC



APPENDIX

TABLE A-1
DESCRIPTION OF INDUSTRY CLASSIFICATIONS

INDUSTRY	INDUSTRY EXAMPLES
Construction	Construction (building contractors-general, painting, carpentry, plumbing, heating, electrical, etc., highway & bridge contractors; swimming pool construction, etc.)
Manufacturing	Manufacturing and mining (including dairy processor, printer, publisher)
Transportation	Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, etc.)
Wholesale	Wholesale (including grain elevator, livestock dealer, distributor of construction equipment, etc.)
Retail	Retail sales (including food store, service station, restaurant, bar, radio and TV store, drug store, furniture and appliances, auto dealer, etc.
Agriculture	Agriculture veterinarian, forestry, landscaping, fisheries
Financial Services	Finance companies, insurance, real estate, banks, savings & loans, etc.
Nonprofessional Services	Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping services, photographer, funeral director, rental agency, credit bureau, laundry, etc.
Professional Services	Physician, dentist, attorney, optometrist, engineer, architect, accountant, skilled nursing care facility, etc.

TABLE A-2
DEFINITION OF REGIONS

REGION	STATES INCLUDED IN REGION
New England	Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont
Mid-Atlantic	New Jersey, New York, Pennsylvania
East North Central	Illinois, Indiana, Michigan, Ohio, Wisconsin
West North Central	Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota
South Atlantic	Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia, (also includes Washington, D.C.)
East South Central	Alabama, Kentucky, Mississippi, Tennessee
West South Central	Arkansas, Louisiana, Oklahoma, Texas
Mountain	Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
Pacific	Alaska, California, Hawaii, Oregon, Washington

TABLE A-3
ANNUAL GROSS SALES BY INDUSTRY

SALES OF FIRM	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms April 1989
Less than $50,000	8	3	8	2	8	11	5	16	12	8
$50,000-99,999	11	6	7	3	10	14	17	18	6	10
$100,000-199,000	14	13	8	6	17	24	18	19	27	16
$200,000-349,000	15	11	15	11	19	14	12	18	17	16
$350,000-799,999	20	15	27	13	18	24	14	13	21	17
$800,000-1,499,999	17	17	8	17	13	3	15	5	9	13
$1,500,000-2,999,999	7	14	7	23	7	6	8	3	5	8
$3,000,000 or more	7	19	17	24	6	1	8	4	2	9
Not Ascertained	1	2	3	1	2	3	3	4	1	3
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Number of Firms	260	237	60	124	601	71	158	203	121	1835
Percent of Firms	14	13	3	7	33	3	9	11	7	100%

* Less than 0.5%

TABLE A-4
NUMBER OF EMPLOYEES BY INDUSTRY

EMPLOYEES	Construction	Manufacturing	Transportation	Wholesale	Retail	Agriculture	Financial Services	Non-Professional Services	Professional Services	All Firms April 1989
1	5	2	3	5	6	11	9	12	7	6
2	8	6	8	5	12	9	15	13	12	10
3 - 5	23	19	24	23	31	31	41	34	32	29
6 - 9	22	14	17	21	17	13	15	21	20	18
10 - 14	14	11	13	16	12	7	8	5	10	11
15 - 19	5	12	5	9	5	10	2	7	7	7
20 - 39	12	14	10	14	9	2	5	2	5	9
40 or more	9	20	13	8	5	1	4	5	5	8
No Answer	2	2	7	*	3	6	1	*	2	2
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

NFIB QUARTERLY ECONOMIC SURVEY

Please (circle) the appropriate answers or fill in the blanks.

1. What is your form of business organization?

[1] Proprietorship [2] Partnership [3] Corporation 1

2. Please classify [your major business activity,] using [one] of the categories of examples below. (If more than one applies, circle ***the one*** which contributes the most toward your gross sales or total revenues.)

[1] Construction (general contractor, painting, carpentry, plumbing, heating, electrical, highway, **etc.**)
[2] Manufacturing and mining (including dairy processor, printer, publisher, **etc.**)
[3] Transportation, travel agency, communication, public utilities (truckers, movers, broadcasters, **etc.**)
[4] Wholesale (including grain elevator, livestock dealer, distributor of equipment, manufacturer's rep., **etc.**) 2
[5] Retail (including service station, restaurant, bar, radio and TV store, drug store, florist, apparel, **etc.**)
[6] Agriculture, veterinarian, forestry, landscaping, fisheries, **etc.**
[7] Financial, insurance, real estate, bank, savings & loan, **etc.**
[8] Beauty salon, barber shop, garage, motel, hotel, repair service, bookkeeping service, photographer, funeral director, rental agency, credit bureau, laundry, **etc.**
[9] Physician, dentist, attorney, engineer, architect, accountant, skilled nursing care facility, **etc.**
[10] Other (please describe) _____

3. What is the [single] most important problem facing [your business] today? (Please circle only **ONE** of the following):

[1] Taxes
[2] Inflation
[3] Poor sales
[4] Interest rates & financing
[5] Cost of labor
[6] Government regulation(s) & red tape
[7] Competition from large businesses
[8] Quality of labor
[9] Shortage of fuels, materials or goods 3
[0] Other _____ (please explain)

4. Do you think the ***next three months*** will be a good time for small business to expand substantially?

[1] Yes [2] No [3] Uncertain 4

4a. Why? (Circle **ONE** answer – ***most important reason***)

[1] Economic conditions
[2] Sales prospects
[3] Financing & interest rates
[4] Cost of expansion
[5] Other _____ (please explain) 5

5. About the [economy in general,] do you think that ***six months from now*** general business conditions will be better than they are now, about the same, or worse?

[1] Much better
[2] Somewhat better
[3] About the same
[4] Somewhat worse
[5] Much worse
[6] Don't know 6

6. During the last 3 months or calendar [quarter,] what were your [gross sales,] or revenues?

[1] Under $12,500
[2] $12,500–24,999
[3] $25,000–49,999
[4] $50,000–87,499
[5] $87,500–199,999
[6] $200,000–374,999
[7] $375,000–749,999
[8] $750,000 or more 7

6a. During the ***last calendar quarter,*** was your dollar sales volume higher, lower, or about the same as it was ***for the quarter before***?

[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 8

6b. If [higher or lower,] by approximately what percentage?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more 9

7. Were your [net earnings] or "income" (after taxes) from your business during the ***last calendar quarter*** higher, lower, or about the same as they were ***for the quarter before***?

[1] Much higher [2] Higher [3] About the same [4] Lower [5] Much lower 10

7a. If [higher or lower,] by approximately what percentage?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more 11

7b. If [higher or lower], what is the ***most important reason***? (Circle only **ONE**)

[1] Sales volume
[2] Labor costs
[3] Cost of materials
[4] Availability of materials
[5] Received higher prices for your product or service
[6] Financing costs
[7] Usual seasonal change
[8] Other _____ (Specify)

12

8. Overall, what do you expect to happen to the real ***volume*** (number of units) of goods and/or services that you will sell during the ***next three months***?

[1] Go up a lot
[2] Go up a little
[3] Stay the same
[4] Go down a little
[5] Go down a lot
[6] Don't know

13

9. How are your [average selling prices] now compared to three months ago?

[1] Lower now
[2] No difference
[3] Higher now
[4] Don't know

14

9a. If ***higher or lower***, by what percent, on an average?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

15

10. In the ***next three months***, do you plan to ***change*** the [average selling prices] of your goods and/or services?

[1] Yes, raise prices
[2] Yes, lower prices
[3] No change
[4] Don't know

16

10a. If raise or lower, by what percent, ***on average***?

[1] Less than 1%
[2] 1.0–1.9%
[3] 2.0–2.9%
[4] 3.0–3.9%
[5] 4.0–4.9%
[6] 5.0–7.9%
[7] 8.0–9.9%
[8] 10% or more
[9] Don't know

17

11. How many employees do you have [full and part-time] ***including yourself***?

[1] One
[2] Two
[3] 3–5
[4] 6–9
[5] 10–14
[6] 15–19
[7] 20–39
[8] 40 or more

18

12. During the ***last three months***, did the ***total*** number of employees in your firm increase, decrease, or stay about the same?

[1] Increased by ____ employee(s)
[2] Decreased by ____ employee(s)
[3] Stayed the same

19-21

12a. If the ***total number*** of employees [increased or decreased], was this change due primarily to ***seasonal factors*** affecting your business?

[1] Yes
[2] No

22

13. In the ***next three months***, do you expect to increase or decrease the total [number of people working for you?]

[1] Increase
[2] Keep the same
[3] Decrease

23

14. Do you have any [job openings] that you are ***not*** able to fill right now?

[1] Yes, for skilled labor
[2] Yes, for unskilled labor
[3] Yes, both skilled and unskilled labor
[4] No

24

14a. If you have any openings, about how long have these jobs been available? (Circle **ONE** category which best describes your overall situation):

[1] Less than one month
[2] One month, but less than three months
[3] Three months, but less than six months
[4] Six months or more

25

15. During the last three months, did you increase or decrease your inventories?

[1] Increase
[2] About the same
[3] Decrease
[4] Not appropriate

26

15a. If [increase or decrease], by approximately what percent?

[1] Less than 6%
[2] 6%–10%
[3] 11%–15%
[4] 16%–20%
[5] 21%–25%
[6] 26%–35%
[7] 36%–50%
[8] 51% or more

27

16. At the present time, do you feel your [inventories] are too large, about right, or inadequate?

[1] Too large
[2] About right
[3] Too low
[4] Not appropriate

28

16a. Looking ahead to the [next three to six months], do you expect, on balance, to add to your inventories, keep them about the same, or decrease them?

[1] Add
[2] Keep the same
[3] Decrease
[4] Not appropriate

29

(See next page)

17. If you borrow money regularly (at least once every 3 months) as part of your business activity, how does the rate of interest payable on your most recent loan compare with that paid ***three months ago***?

[1] Much higher [3] Same [5] Much lower [7] Inapplicable, do not borrow regularly 30
[2] Higher [4] Lower [6] Don't know

17a. Are these loans easier or harder to get than they were ***three months ago***?

[1] Easier [2] Same [3] Harder [4] Don't know 31

17b. Do you expect to find it easier or harder to obtain your required financing during the ***next three months***?

[1] Easier [2] Same [3] Harder [4] Don't know 32

18. If you borrowed within the last three months for business purposes, and the loan maturity (pay back period) was 1 year or less, what interest rate did you pay? _____ % or Prime + _____ 33-35

19. During ***the last 6 months*** has your firm made any capital expenditures to improve or purchase equipment, buildings, or land? (Check all that apply)

Equipment, Vehicles:	[1] Yes	36
Additional Buildings:	[1] Yes	37
Improved Buildings:	[1] Yes	38
Additional Land:	[1] Yes	39

19a. ***If yes***, what was ***the total cost*** of these projects (i.e. total purchase price)?

[1] under $1,000 [4] $10,000-19,999 [7] $100,000-499,999 40
[2] $1,000-4,999 [5] $20,000-49,999 [8] $500,000-999,999
[3] $5,000-9,999 [6] $50,000-99,999 [9] $1 million or more

20. Looking ahead to the next three to six months, do you expect to make any capital expenditures for plant and/or physical equipment?

[1] Yes [2] No [3] Don't know 41

PLEASE DO NOT REMOVE ADDRESS LABEL
(Needed for compiling geographical and industry information)

21. Do you plan to change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.) during the ***next three months***?

[1] Increase [2] Keep the same [3] Decrease [4] Don't know 42

21a. If Increase or Decrease, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% [7] Don't know 43
[2] 3-4% [4] 7-8% [6] Over 10%

22. Over the ***past three months***, did you change ***average*** employee compensation (wages and benefits but NOT Social Security, U.C. taxes, etc.)?

[1] Increased [2] Kept the same [3] Decreased 44

22a. If Increased or Decreased, by what percentage on average?

[1] 1-2% [3] 5-6% [5] 9-10% 45
[2] 3-4% [4] 7-8% [6] Over 10%

23. Please indicate the geographical area that best describes the community in which your business is located:

[1] A metropolitan/urban area (population of over 100,000 in city and immediate area) 46
[2] A small city (population over 15,000 but under 100,000 in city and immediate area)
[3] A rural area (population under 15,000 in city and surrounding communities)

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